

Message Text

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E.O. 11652: N/A

TAGS: ENRG, JA

SUBJ: JAPANESE OIL EXPLORATION

SUMMARY: THE VIEW THAT JAPAN MUST TAKE A NEW APPROACH TO INDEPENDENT OIL EXPLORATION SEEMS TO BE GAINING STRENGTH IN TOKYO. THE TAKEOVERS OF OIL COMPANY ASSETS BY OPEC COUNTRIES, RAPIDLY RISING COSTS AND POOR SHOWING BY JAPANESE EXPLORATION COMPANIES TO DATE HAVE PROMPTED THE PRESIDENT OF THE JAPAN PETROLEUM DEVELOPMENT CORPORATION, A WHOLLY GOJ-OWNED ENTITY, TO SUGGEST THAT JAPAN ABANDON ITS FRAGMENTED SYSTEM AND CREATE A SINGLE COMPANY TO OVERSEE EXPLORATION ACTIVITY. END SUMMARY.

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1. UNDER THE PRESENT SYSTEM, INDEPENDENT JAPANESE EXPLORATION IS CARRIED OUT ON A PROJECT BY PROJECT BASIS WITH 50 PERCENT OF FINANCING SUPPLIED BY THE JAPAN PETROLEUM DEVELOPMENT CORPORATION (JPDC) AND 50 PERCENT

BY CONSORTIA OF JAPANESE OIL COMPANIES AND TRADING FIRMS. OF OVER 60 COMPANIES FORMED, ONLY 7 HAVE ACTUALLY STRUCK OIL. THEY SUPPLIED ONLY 10 PERCENT OF JAPAN'S PETROLEUM NEEDS IN 1974. THE SYSTEM WAS DESIGNED TO GET THE MAXIMUM LEVERAGE FROM JAPAN'S LIMITED TECHNICAL, MANAGERIAL AND FINANCIAL RESOURCES (E.G., JAPAN HAS ONLY 650 PETROLEUM EXPLORATION ENGINEERS).

2. IN ADDITION TO THE LOW SUCCESS RATE, SEVERAL OTHER FACTORS HAVE PROMPTED THE JAPANESE TO REEXAMINE THE CURRENT SYSTEM: A. OPEC TAKEOVERS OF MAJOR OIL COMPANIES' ASSETS MAY HAVE OPENED THE DOOR FOR JAPANESE (AND OTHER) INDEPENDENTS TO ENTER INTO DIRECT EXPLORATION AND PRODUCTION SHARING DEALS; B. SHARPLY RISING COSTS DUE TO GENERAL INFLATION ARE MAKING IT DIFFICULT IF NOT IMPOSSIBLE FOR EXPLORATION COMPANIES TO RAISE SUFFICIENT FUNDS; AND C) THE REMAINING AREAS OF THE WORLD THAT LOOK PROMISING ARE RELATIVELY INACCESSIBLE AND WILL REQUIRE NOT ONLY MASSIVE INVESTMENTS BUT MASSIVE ORGANIZATION TO BRING IN NEW SUPPLIES.

3. TO COPE WITH THIS SITUATION, AND AS A STEP TOWARD A FULLY INTEGRATED JAPANESE OIL COMPANY ENCOMPASSING UP AND DOWN STREAM OPERATIONS, JPDC PRESIDENT SHIMADA HAS PROPOSED THAT A SINGLE COORDINATING COMPANY BE FORMED IN PLACE OF SMALL SINGLE PROJECT COMPANIES. JPDC WOULD SUPPLY 50 PERCENT OF EQUITY WITH THE OTHER 50 PERCENTSPREAD OUT AMONG EXISTING OIL COMPANIES AND TRADING FIRMS. JPDC WOULD, HOWEVER, SUPPLY 75 PERCENT OF THE OPERATING FUNDS AS OPPOSED TO THE 50-50 RATIO CHARACTERIZING CURRENT ARRANGEMENTS. EXISTING PROJECTS, INCLUDING THOSE INVOLVING NON-JAPANESE PARTNERS, WOULD CONTINUE IN THEIR PRESENT FORM, BUT ALL NEW EXPLORATION AND PRODUCTION WOULD BE CARRIED OUT BY THE COORDINATING COMPANY, WHICH WOULD THEN SELL MOST OF THE CRUDE TO SO-CALLED JAPANESE NATIONAL CAPITAL REFINERIES SUCH AS IDEMITSU OR KYODO OIL. REORGANIZATION WOULD BE EFFECTED UNDER LEGAL LIMITED OFFICIAL USE LIMITED OFFICIAL USE

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AUTHORITY ALREADY GRANTED THE MINISTRY OF INTERNATIONAL TRADE AND INDUSTRY (MITI) BY THE PETROLEUM INDUSTRY LAW.

4. JPDC PRESIDENT SHIMADA HAS LONG ADVOCATED THAT JAPANESE EXPLORATION AND PRODUCTION ACTIVITIES BE CONSOLIDATED AND STREAMLINED, BUT ENTRENCHED INTERESTS OF TRADING FIRMS AND OIL EXPLORATION COMPANIES HAVE THUS FAR SUCCESSFULLY BLOCKED ANY REORGANIZATION PLANS. ALTHOUGH THE PRESIDENT OF THE JAPAN PETROLEUM PRODUCERS' ASSOCIATION HAS PUBLICLY OPPOSED SHIMADA'S LATEST PROPOSAL, A NUMBER OF LEADING JAPANESE BUSINESSMEN CONCERNED WITH NATIONAL ENERGY POLICY HAVE PUBLICLY

STATED THEIR SUPPORT. FURTHERMORE, THE INFLUENTIAL ECONOMIC JOURNAL (NIHON KEIZAI) HAS FOR THE FIRST TIME EDITORIALY SUPPORTED REORGANIZATION. FINALLY, CONTACTS IN THE MINISTRY OF INTERNATIONAL TRADE AND INDUSTRY HAVE TOLD US THAT THEY INTEND TO PUSH TO HAVE THE SHIMADA PROPOSAL, OR A SIMILAR ONE, INCLUDED IN NEXT YEAR'S BUDGET.

5.COMMENT: WHILE NO CONCRETE STEPS HAVE YET BEEN TAKEN TO CONSOLIDATE JAPAN'S PETROLEUM EXPLORATION INDUSTRY, CHANCES APPEAR BETTER THAN EVEN THAT A SERIOUS EFFORT WILL BE MADE THIS FALL.
SHOESMITH

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